

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 659 - SB 1171

March 16, 2017

SUMMARY OF BILL: Requires a healthcare payor using an alternative payment system, when determining any potential gain-sharing payment or risk-sharing payment for a physician, to disclose all costs of treatment or other services included within the medical service subject to the alternative payment system. Requires a physician to use best efforts to maintain the cost information provided by a healthcare payor under Tenn. Code Ann. § 71-5-2802 as confidential and to exercise best efforts to maintain the non-disclosure of the cost information with any other physician or healthcare provider who has not provided treatment or services under the episode of care.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$447,100

Increase Federal Expenditures - \$852,900

Other Fiscal Impact – Any impact to rates for sharing of negotiated rates will not be recognized until January 2019. A one-percent increase in rates is estimated to be \$15,759,100 in FY18-19 (\$6,993,500 state, \$8,594,300 federal, and \$171,300 local) and \$31,518,000 in FY19-20 and subsequent years (\$13,987,000 state, \$17,188,500 federal, and \$342,500 local).

Assumptions:

- Based on information provided by the Department of Finance and Administration, Division of Benefits Administration and the Bureau of TennCare, the proposed legislation would require payors to disclose claims-level information to physicians for any alternative payments systems if the provider is required to make a risk sharing payment in excess of current reports delivered for participation in the Tennessee Health Care Innovation Initiative (THCII).
- The proposed legislation requires a healthcare payor that is a Managed Care Organization (MCO) for TennCare to provide claims-level information in reports to physicians. MCOs will incur costs to implement the new detailed reports.
- The one-time increase in expenditures is estimated to be \$1,300,000. Medicaid expenditures receive matching funds at a rate of 65.605 percent federal funds to 34.395

percent state funds. Of the \$1,300,000, \$447,135 ($\$1,300,000 \times 34.395\%$) will be state funds and \$852,865 ($\$1,300,000 \times 65.605\%$) will be in federal funds.

- Requiring payors to disclose negotiated prices of many services will result in providers having the ability to negotiate higher rates.
- The first calendar year in which end-of-year reports will be provided is 2017. Due to a six-month claims runout period, the claims-level information for 2017 will not be available until July 2018; therefore, the first end-of-year reporting will not be provided until August 2018.
- Based on information provided by the Division of Health Care Finance and Administration, a one percent increase in claims costs will result in an increase in expenditures of \$26,200,000 annually.
- While contract updates occur throughout the year, the majority of contracts renew January 1; therefore, the first change to negotiated rates as a result of claims-level information being available to providers will be January 1, 2019, resulting in six months of expenditures in FY18-19.
- Medicaid expenditures receive matching funds at a rate of 65.605 percent federal funds to 34.395 percent state funds.
- The FY18-19 increase in expenditures is estimated to be \$13,100,000 ($\$26,200,000 \times 50.0\%$). Of this amount, \$4,505,745 ($\$13,100,000 \times 34.395\%$) will be in state funds and \$8,594,255 ($\$13,100,000 \times 65.605\%$) will be federal funds.
- The increase in expenditures in FY19-20 and subsequent years is estimated to be \$26,200,000. Of this amount, \$9,011,490 ($\$26,200,000 \times 34.395\%$) will be state funds and \$17,188,510 ($\$26,200,000 \times 65.605\%$) will be federal funds.
- Based on information provided by the Department of Finance and Administration, Division of Benefits Administration, the proposed legislation will result in a one percent increase in carrier's medical claims.
- In 2015, the total amount of claims was \$856,362,462. Assuming the one percent increase, it is estimated claims will increase by \$8,563,625 ($\$856,362,462 \times 1.0\%$) annually.
- Of the total projected loss of savings, 52 percent would be realized by the State Employee plan, 40 percent by the Local Education Plan, and 8 percent by the Local Government Plan.
- According to Benefits Administration, the state contributes 80 percent of member premiums resulting in an increase in state expenditures of at least \$3,562,468 ($\$8,563,625 \times 80\% \times 52\%$).
- According to Benefits Administration, the state contributes 45 percent of instructional member premiums (75 percent of Local Education Plan members) and 30 percent of support staff member premiums (25 percent of Local Education Plan members) resulting in an increase in state expenditures of at least \$1,412,998 [$(\$8,563,625 \times 40.0\% \times 75.0\% \times 45.0\%) + (\$8,563,625 \times 40.0\% \times 25.0\% \times 30.0\%)$].
- The total increase in state expenditures for Benefits Administration is estimated to be \$4,975,466 ($\$3,562,468 + \$1,412,998$). Therefore, the increase to state expenditures for Benefits Administration is estimated to be \$2,487,733 ($\$4,975,466 \times 50.0\%$) in FY18-19 and \$4,975,466 in FY19-20 and subsequent years.
- The state does not contribute to the Local Government plan. Participating agencies' and their employees' expenditures are estimated to be \$685,090 ($\$8,563,625 \times 8.0\%$).

- The average local government contribution to member premiums is unknown. It is estimated that participating local governments contribute 50 percent to member premiums and that participating local government expenditures will increase by at least \$342,545 ($\$685,090 \times 50.0\%$) in FY19-20 and subsequent year, and by \$171,273 ($\$342,545 \times 50.0\%$) in FY18-19.
- The total increase in state expenditures in FY18-19 is estimated to be \$6,993,478 ($\$4,505,745 + \$2,487,733$).
- The total increase in state expenditures in FY19-20 and subsequent years is estimated to be \$13,986,956 ($\$9,011,490 + \$4,975,466$).

IMPACT TO COMMERCE:

Increase Business Revenues - \$1,300,000

Increase Business Expenditures – Less than \$1,300,000

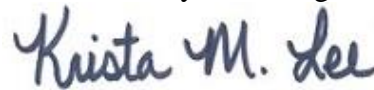
Other Fiscal Impact - Providers will realize an increase in business revenues of \$15,759,100 in FY18-19 and \$31,518,000 in FY19-20 and subsequent years.

Assumptions:

- TennCare MCOs will realize an increase in business revenue in order to modify their systems in order to provide claims-level detailed reports.
- TennCare MCOs will incur an increase in business expenditures in order to provide the detailed reports.
- Any revenues will exceed business expenditures in order for companies to retain solvency.
- It is assumed that providers will realize an increase in business revenues estimated to be \$15,759,100 in FY18-19 and \$31,518,000 in FY19-20 and subsequent years due to the estimated one-percent increase in rates.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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